



Cherry, Bekaert & Holland, L.L.P.
The Firm of Choice.

www.cbh.com

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January 30, 2012

Mr. Thomas Bonfield
City Manager
City of Durham
101 City Hall Plaza, 2nd Floor
Durham, North Carolina 27701

Dear Mr. Bonfield:

This engagement letter between the City of Durham (hereafter referred to as the "City") and Cherry, Bekaert & Holland, L.L.P. (the "Firm" or "CBH") sets forth the nature and scope of the services we will provide, the City's required involvement and assistance in support of our services, the related fee arrangements and other Terms and Conditions, which are attached hereto and incorporated by this reference, designed to facilitate the performance of our professional services and to achieve the mutually agreed upon objectives of the City.

SUMMARY OF SERVICES

We will provide the following services to the City as of and for the year ended June 30, 2012:

Audit services and basis of accounting

We will audit the basic financial statements of the City as of and for the year ended June 30, 2012 including the governmental activities, the business type activities, each major fund and the remaining fund information.

Accounting standards generally accepted in the United States provide for certain required supplementary information ("RSI"), such as management's discussion and analysis (MD&A), to accompany the City's basic financial statements. As part of our engagement, we will apply certain limited procedures to the City's RSI. These limited procedures will consist principally of inquiries of management regarding the methods of measurement and presentation, which management is responsible for affirming to us in its representation letter.

Supplementary information other than RSI, also accompanies the City's basic financial statements. We will subject such supplementary information to the auditing procedures applied in our audit of the basic financial statements and will provide an opinion on it in relation to the basic financial statements.

Additional information, such as the letter of transmittal and statistical section will not be subjected to the auditing procedures applied in our audit of the financial statements, and, accordingly, our auditor's report will disclaim an opinion on such information.

YOUR EXPECTATIONS

As part of our planning process, we will discuss with you your expectations of CBH, changes that occurred during the year, your views on risks facing you, any concerns that you may have with CBH, and specific engagement arrangements and timing. Our services plan, which includes our audit plan, is designed to provide a foundation for an effective, efficient, and quality-focused approach to accomplish the engagement objectives and meet or exceed your expectations. Our service plan will be reviewed with you periodically and will serve as a benchmark against which you will be able to measure our performance. Any additional services that you may request, and that we agree to provide, will be the subject of separate written arrangements.

The engagement will be led by Eddie Burke, who will be responsible for assuring the overall quality, value, and timeliness of the services provided to you.

AUDIT SERVICES

The objective of our audit is the expression of opinions as to whether your basic financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles and to report on the fairness of the additional information referred to in the Summary of Services section when considered in relation to the basic financial statements taken as a whole. The objective also includes reporting on:

- Internal control related to the financial statements and compliance with the provisions of applicable laws, regulations, contracts, agreements and grants, noncompliance with which could have a material effect on the financial statements in accordance with *Government Auditing Standards*.
- Internal control related to major programs and an opinion on compliance with laws, regulations and the provisions of contracts or grant agreements that could have a direct and material effect on each major program in accordance with the Single Audit Act Amendments of 1996 and OMB Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations* and the State Single Audit Implementation Act.

The reports on internal control and compliance will each include a statement that the report is intended solely for the information and use of the audit committee, management, and specific legislative or regulatory bodies and is not intended to be and should not be used by anyone other than these specified parties.

Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America; *Government Auditing Standards*, issued by the Comptroller General of the United States; the provisions of OMB Circular A-133; the Single Audit Act Amendments of 1996; and the State Single Audit Implementation Act, and will include test of accounting records, and other procedures as deemed necessary to enable us to express such an opinion and to render the required reports. If any of our opinions resulting from the procedures described above are other than unqualified, we will fully discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed opinions, we may decline to express opinions or issue a report as a result of this engagement.

ACCOUNTING AND OTHER SERVICES

Accounting services

We will advise Management about the application of appropriate accounting principles, and may propose adjusting journal entries to the City's financial statements. Management is responsible for reviewing the entries and understanding the nature of any proposed entries and the impact they have on the City's financial statements. If, while reviewing the journal entries, Management determines that a journal entry is inappropriate, it will be Management's responsibility to contact us to correct it.

Management's responsibilities related to accounting and other services

For all nonattest services we perform in connection with the engagement, you are responsible for designating a competent employee to oversee the services, make any management decisions, perform any management functions related to the services, evaluate the adequacy of the services, and accept overall responsibility for the results of the services.

Prior to the release of the report, Management will need to sign a representation letter acknowledging your responsibility for the results of these services.

CONDITIONS SUPPORTING FEE

As a result of our preliminary discussions, the City and the Firm have agreed to a fee, subject to the following conditions:

The estimated fee contemplates only the services described in the Summary of Services section of this letter. If Management requests or if additional accounting services are required that are not listed above, we will provide an estimate of those fees prior to commencing the additional work. In addition our fee is based upon 8 major federal and State programs being audited annually. Any significant change in funding levels that requires more than 11 federal and State programs to be audited in any one year would be billed at \$1,750 per program.

FEES

The following summarizes the fees for the services described above:

<u>Description of Services</u>	<u>Estimated Fee</u>
Audit services	
Audit of the financial statements	\$ 65,000
Total	<u>\$ 65,000</u>

The fees will be billed periodically. Invoices are due on presentation. A service charge will be added to past due accounts equal to 1-1/2% per month (18% annually) on the previous month's balance less payments received during the month, with a minimum charge of \$2.00 per month.

City of Durham, North Carolina

January 30, 2012

Page 4

If the foregoing is in accordance with your understanding, please sign a copy of this letter in the space provided and return it to us. If you have any questions, please call Eddie Burke at (919) 782-1040.

Sincerely,

CHERRY, BEKAERT & HOLLAND, L.L.P.

Cherry, Bekaert & Holland L.L.P.

Raleigh, North Carolina

ATTACHMENT – Engagement Letter Terms and Conditions

City of Durham

ACCEPTED BY:

Thomas Bayfield

TITLE: City Manager

DATE: 2/7/12

Cherry, Bekaert & Holland, L.L.P
Engagement Letter Terms and Conditions

Limitations of the audit report

Should the Client wish to include or incorporate by reference these financial statements and our report thereon into any other document at some future date, we will consider granting permission to include our report into another such document at the time of the request. However, we may be required by generally accepted auditing standards ("GAAS") to perform certain procedures before we can give our permission to include our report in another document such as an annual report, private placement, regulator filing, official statement, offering of debt securities, etc. You agree that you will not include or incorporate by reference these financial statements and our report thereon, or our report into any other document without our prior written permission. In addition, to avoid unnecessary delay or misunderstandings, it is important to provide us with timely notice of your intention to issue any such document.

Limitations of the audit process

In conducting the audit, we will perform tests of the accounting records and such other procedures as we consider necessary in the circumstances to provide a reasonable basis for our opinion on the financial statements. We also will assess the accounting principles used and significant estimates made by Management, as well as evaluate the overall financial statement presentation.

Our audit will include procedures designed to obtain reasonable assurance of detecting misstatements due to errors or fraud that are material to the financial statements. Absolute assurance is not attainable because of the nature of audit evidence and the characteristics of fraud. For example, audits performed in accordance with GAAS are based on the concept of selective testing of the data being examined and are, therefore, subject to the limitation that material misstatements due to errors or fraud, if they exist, may not be detected. Also, an audit is not designed to detect matters that are immaterial to the financial statements. In addition, an audit conducted in accordance with GAAS does not include procedures specifically designed to detect illegal acts having an indirect effect (e.g., violations of fraud and abuse statutes that result in fines or penalties being imposed on the Client) on the financial statements.

Similarly, in performing our audit we will be aware of the possibility that illegal acts may have occurred. However, it should be recognized that our audit provides no assurance that illegal acts generally will be detected, and only reasonable assurance that illegal acts having a direct and material effect on the determination of financial statement amounts will be detected. We will inform you with respect to errors and fraud, or illegal acts that come to our attention during the course of our audit unless clearly inconsequential. In the event that we have to consult with the Client's counsel or counsel of our choosing regarding any illegal acts we identify, additional fees incurred may be billed to the Client. You agree to cooperate fully with any procedures we deem necessary to perform with respect to these matters.

If, for any reason, we are unable to complete the audit, or are unable to form, or have not formed an opinion on the financial statements, we may decline to express an opinion or decline to issue a report as a result of the engagement. We will notify the appropriate party within your organization of our decision and discuss the reasons supporting our position.

Management's responsibilities related to the audit

Management is responsible for the fair presentation of the financial statements in conformity with GAAP or such other basis of accounting consistently applied as described above, for making all financial records and related information available to us, for ensuring that all material information is disclosed to us, and for identifying and ensuring that the Client complies with the laws and regulations applicable to its activities and with the provisions of contracts and grant agreements.

Management is also responsible for adjusting the financial statements to correct material misstatements, informing us of events that occurred subsequent to the statement of net asset or balance sheet date until the date of the auditor's report that might affect the financial statement or related disclosures and informing us of any discovery of facts related to items that existed at the financial statement date that might affect the financial statements or related disclosures.

Management is responsible for informing us of its views regarding the risk of fraud at the Client. Management must inform us of their knowledge of any allegations of fraud or suspected fraud affecting the Client received in communications from employees, former employees, regulators, or others and for informing us about all known or suspected fraud affecting the Client involving (a) Management, (b) employees who have significant roles in internal control, and (c) others where the fraud could have a material effect on the financial statements.

Management is responsible for the design and implementation of programs and controls over financial reporting and to prevent and detect fraud. Appropriate supervisory review procedures are necessary to provide reasonable assurance that adopted policies and prescribed procedures are adhered to and to identify errors and fraud or illegal acts. As a part of our audit, we will consider the Client's internal control structure, as required by GAAS, sufficient to plan the audit and to determine the nature, timing, and extent of auditing procedures necessary for expressing our opinion concerning the financial statements. An audit is not designed to provide any assurance on internal controls. As part of our consideration of the Client's internal control structure, we will inform you of matters that come to our attention that represent significant deficiencies or material weaknesses in the design or operation of the internal control structure.

Management is responsible for establishment and maintenance of a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying to us previous audits or other engagements or studies related to the objectives discussed in the Audit Objectives section of this letter. This responsibility includes relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits or other engagements or studies. You are also responsible for providing management's views on our current findings, conclusions and recommendations, as well as your planned corrective actions, and the timing and format related thereto.

At the conclusion of the engagement, Management will provide to us a representation letter that, among other things, addresses (1) Management's responsibilities related to the audit and confirms certain representations made to us during the audit, including, Management's acknowledgement of its responsibility for the design and implementation of programs and controls to prevent and detect fraud; (2) Management's responsibilities related to the monitoring of internal control over financial reporting; and (3) Management's knowledge, directly or from allegations by others, of fraud or suspected fraud affecting the entity.

The representation letter will also affirm to us that Management believes that the effects of any uncorrected misstatements, if any, pertaining to the financial statements are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. The Firm will rely on Management providing these representations to us, both in the planning and performance of the audit, and in considering the fees that we will charge to perform the audit.

AUDIT PROCEDURES – GENERAL

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve professional judgment about the number of transactions to be examined and the areas to be tested. We will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity. Because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to provide reasonable assurance of detecting abuse.

Because an audit is designed to provide reasonable, but not absolute assurance and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements or noncompliance may exist and not be detected by us. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements or major programs. However, we will inform you of any material errors and fraud, or illegal acts that come to our attention during the course of our audit. We will also inform you of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential. Our responsibility as auditors is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include tests of the physical existence of inventories and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, creditors and financial institutions. We will request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audit, we will also require certain written representations from you about the financial statements and related matters.

AUDIT PROCEDURES – INTERNAL CONTROLS

Our audit will include obtaining an understanding of the entity and its environment, including internal controls, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing and extent of further audit procedures. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to *Government Auditing Standards*.

An audit is not designed to provide assurance on internal control or to identify significant deficiencies. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under professional standards, and *Government Auditing Standards*.

AUDIT PROCEDURES - COMPLIANCE

As part of obtaining reasonable assurance about whether the basic financial statements are free of material misstatement, we will perform tests of the City's compliance with applicable laws and regulations and the provisions of contracts and agreements, including grant agreements. However, the objective of those procedures will not be to provide an opinion on overall compliance and we will not express such an opinion in our report on compliance issued pursuant to *Government Auditing Standards*.

Communications

At the conclusion of the audit engagement, we will provide Management and those charged with governance a letter stating any significant deficiencies or material weaknesses which may have been identified by us during the audit and our recommendations designed to help the Client make improvements in its internal control structure and operations related to the identified matters discovered in the financial statement audit. As part of this engagement we will ensure that certain additional matters are communicated to the appropriate members of the Client. Such matters include (1) our responsibility under GAAS; (2) the initial selection of and changes in significant accounting policies and their application; (3) our independence with respect to the Client; (4) the process used by Management in formulating particularly sensitive accounting estimates and the basis for our conclusion regarding the reasonableness of those estimates; (5) audit adjustments, if any, that could, in our judgment, either individually or in the aggregate be significant to the financial statements or our report; (6) any disagreements with Management concerning a financial accounting, reporting or auditing matter that could be significant to the financial statements; (7) our views about matters that were the subject of Management's consultation with other accountants about auditing and accounting matters; (8) major issues that were discussed with Management in connection with the retention of our services, including, among other matters, any discussions regarding the application of accounting principles and auditing standards; and (9) serious difficulties that we encountered in dealing with Management related to the performance of the audit.

Government Auditing Standards require that we provide you with a copy of our most recent quality control review report. Our most recent peer review report, letter of comment and our response accompanies this letter.

OTHER MATTERS

Access to working papers

The working papers and related documentation for the engagement are the property of the Firm and constitute confidential information. We have a responsibility to retain the documentation for a period of time to satisfy legal or regulatory requirements for records retention. Except as discussed below, any requests for access to our working papers will be discussed with you prior to making them available to requesting parties.

We may be requested to make certain documentation available to regulators, governmental agencies (e.g., SEC, PCAOB, HUD, DOL, etc.) or their representatives ("Regulators") pursuant to law or regulations. If requested, access to the documentation will be provided to the Regulators. The Regulators may intend to distribute to others, including other governmental agencies, our working papers and related documentation without our knowledge or express permission. You hereby acknowledge and authorize us to allow Regulators access to and copies of documentation as requested. In addition, our Firm, as well as all other major accounting firms, participates in a "peer review" program covering our audit and accounting practices as required by the American Institute of Certified Public Accountants. This program requires that once every three years we subject our quality assurance practices to an examination by another accounting firm. As part of the process, the other firm will review a sample of our work. It is possible that the work we perform for you may be selected by the other firm for their review. If it is, they are bound by professional standards to keep all information confidential. If you object to having the work we do for you reviewed by our peer reviewer, please notify us in writing.

Electronic transmittals

During the course of our engagement, we may need to electronically transmit confidential information to each other, within the Firm, and to other entities engaged by either party. Although email is an efficient way to communicate, it is not always a secure means of communication and thus, confidentiality may be compromised. You agree to the use of email and other electronic methods to transmit and receive information, including confidential information between the Firm, the Client and other third party providers utilized by either party in connection with the engagement.

Use of third-party providers

The Firm may from time to time, and depending on the circumstances, use third-party service providers ("service providers") in serving your account. We may share confidential information about you with these service providers, but remain committed to maintaining the confidentiality and security of your information. Accordingly, we maintain internal policies, procedures and safeguards to protect the confidentiality of your personal information. In addition, we will secure confidentiality agreements with all service providers to maintain the confidentiality of your information and we will take reasonable precautions to determine that they have appropriate procedures in place to prevent the unauthorized release of your confidential information to others. In the event that we are unable to secure an appropriate confidentiality agreement, you will be asked to provide your consent prior to the sharing of your confidential information with the service provider.

Subpoenas

In the event we are requested or authorized by you or required by government regulation, subpoena, or other legal process to produce our working papers or our personnel as witnesses with respect to our engagement for you, you will, so long as we are not a party to the proceeding in which the information is sought, reimburse us for our professional time and expense, as well as the fees and expenses of our counsel, incurred in responding to such a request at standard billing rates.

Dispute resolution procedures

If any dispute, controversy or claim arises in connection with the performance or breach of this agreement, either party may, on written notice to the other party, request that the matter be mediated. Such mediation would be conducted by a mediator appointed by and pursuant to the rules of the American Arbitration Association (AAA) or such other neutral facilitator acceptable to both parties. Both parties would exert their best efforts to discuss with each other in good faith their respective positions in an attempt to finally resolve such dispute, controversy, or claim.

The Client and the Firm both agree that any dispute over fees charged by the Firm to the Client will be submitted for resolution by arbitration in accordance with the Rules for Professional Accounting and Related Services Disputes of the AAA. Any award rendered by the Arbitrator pursuant to this Agreement may be filed and entered and shall be enforceable in the Superior Court of the County in which the arbitration proceeds. In agreeing to arbitration, we both acknowledge that, in event of a dispute over fees charged by the Firm, each of us is giving up the right to have the dispute decided in a court of law before a judge or jury and instead we are accepting the use of arbitration for resolution.

The prevailing party shall be entitled to an award of reasonable attorneys' fees and costs incurred in connection with the arbitration of the dispute in an amount to be determined by the arbitrator.

TERMS AND CONDITIONS SUPPORTING FEE

The estimated fees set forth above are based on anticipated full cooperation from your personnel, timely delivery of requested audit schedules and supporting information, timely communication of all significant accounting and financial reporting matters, the assumption that unexpected circumstances will not be encountered during the audit, as well as working space and clerical assistance as mutually agreed upon and as is normal and reasonable in the circumstances. We strive to ensure that we have the right professionals scheduled on each engagement. As a result, sudden Client requested scheduling changes or scheduling changes necessitated by the agreed information not being ready on the agreed upon dates can result in expensive downtime for our professionals. Material last minute schedule changes that result in downtime for our professionals could result in additional fees. This would of course be discussed with you in advance before any additional billings were incurred. Our estimated fee does not include assistance in bookkeeping or other accounting services not previously described. If for any reason the Client is unable to provide such schedules, information and assistance, the Firm and the Client will mutually revise the fee to reflect additional services, if any, required of us to achieve these objectives.

The estimated fees contemplate that the Client will provide adequate documentation of its systems and controls related to significant transaction cycles and audit areas.

In providing our services, we will consult with the Client with respect to matters of accounting, financial reporting or other significant business issues as permitted by professional standards. Accordingly, time necessary to effect a reasonable amount of such consultation is reflected in our fee. However, should a matter require research, consultation or audit work beyond that amount, the Firm and the Client will agree to an appropriate revision in our fee.

The estimated fees set forth in this letter are based on auditing and accounting standards effective as of the date of this engagement letter and known to apply to the Client at this time, but do not include any time related to the application of new auditing or accounting standards that impact the Client for the first time. If new auditing or accounting standards are issued subsequent to the date of this letter and are effective for the period under audit, we will estimate the impact of any such standard on the nature, timing and extent of our planned audit procedures and will communicate with you concerning the scope of the additional procedures and the estimated fees.

The Client agrees to pay all costs of collection (including reasonable attorneys' fees) that the Firm may incur in connection with the collection of unpaid invoices. In the event of nonpayment of any invoice rendered by us, we retain the right to (a) suspend the performance of our services, (b) change the payment conditions under this engagement letter, or (c) terminate our services. If we elect to suspend our services, such services will not be resumed until your account is paid. If we elect to terminate our services for nonpayment, the Client will be obligated to compensate us for all time expended and reimburse us for all expenses through the date of termination.

This engagement letter sets forth the entire understanding between the Client and the Firm regarding the services described herein and supersedes any previous proposals, correspondence, and understandings whether written or oral. Any subsequent changes to the terms of this letter, other than additional billings, will be rendered in writing and shall be executed by both parties. Should any portion of this engagement letter be ruled invalid, it is agreed that such invalidity will not affect any of the remaining portions.

Peer Review Report



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August 27, 2010

System Review Report

To the Partners of Cherry, Bekaert & Holland L.L.P.
and the National Peer Review Committee

We have reviewed the system of quality control for the accounting and auditing practice of Cherry, Bekaert & Holland L.L.P. (the firm) applicable to non-SEC issuers in effect for the year ended April 30, 2010. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included engagements performed under *Government Auditing Standards*; audits of employee benefit plans, and an audit performed under FDICIA.

In our opinion, the system of quality control for the accounting and auditing practice of Cherry, Bekaert & Holland L.L.P., applicable to non-SEC issuers in effect for the year ended April 30, 2010, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. Cherry, Bekaert & Holland L.L.P. has received a peer review rating of *pass*.

EisnerAmper LLP

New York | New Jersey | Pennsylvania | Cayman Islands

EisnerAmper is an independent member of PKF International Limited